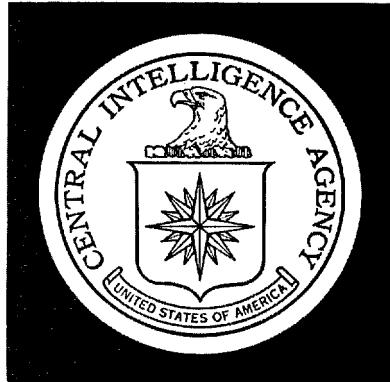


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DIA and DOS review(s) completed.

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[South Vietnam: The over-all level of violence remained relatively low on 28 May. The Communists' 48-hour cease-fire began at 7 p.m. EDT on 28 May; it may account for the tapering off in enemy activity.

Action for the most part was limited to the western highlands and northern I Corps, where the Communists shelled several allied installations. Casualties and damage from the shellings were light. The only significant enemy ground assault was made against a South Vietnamese regimental headquarters in southern Quang Tri Province. Government troops beat back the attack but suffered at least a dozen killed and 23 wounded. Communist losses were 22 killed.

* * * *

The Communists intend to pursue more realistic goals on the battlefield during the summer campaign,

[] Their tactics will emphasize the same kind of heavy reliance on shellings and guerrilla warfare which has been evident since the spring of this year. []

[] the Communist summer resolution issued by the Central Office for South Vietnam stresses the principle of "limited and partial victories" as steps leading to "total victory."

The new resolution is considerably different from past pronouncements which called for large-scale, powerful attacks on major allied installations and urban areas of South Vietnam. In effect, enemy troops are being told that, for the summer at least, Communist military ambitions will be more in line with what appear to be their present capabilities. []

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France: Poher's declining strength in the opinion polls reflects gains for leftist candidates on the first ballot rather than for Pompidou.

In the latest poll taken by the reputable French Institute of Public Opinion, the interim President has slipped to 27 percent--down 10 percentage points from his rating less than two weeks ago. Gaullist candidate Pompidou, however, remains at 41 percent; only the Communist standard bearer, Jacques Duclos, has made substantial gains during this period.

A Gaullist electoral strategist believes that Duclos' rise to 16 percent, particularly when compared to the eight percent backing moderate Socialist Gaston Defferre, may scare centrist voters away from Poher on the second ballot. Pompidou can be expected to hammer hard at the idea that the most significant element of the left, on whose votes Poher depends for a victory, is the Communist Party.

Despite Pompidou's failure to pick up strength, some Gaullists are still expressing a considerable degree of confidence. Foreign Minister Debre, who feels that Poher has now "peaked," says that the Gaullists will try--without alienating their traditional supporters--to keep the Communist electorate from swinging to Poher on the second ballot. In addition, Duclos' tactic of concentrating his fire on Poher as the likely recipient of straying Communist votes on the first round may make it difficult for the Communist leaders to do an about-face and endorse Poher on the second ballot.

With the vote split among seven competing candidates, no contender will win on 1 June the absolute majority necessary for a first ballot victory. The runoff ballot on 15 June will almost certainly feature Poher and Pompidou.

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Czechoslovakia: Party First Secretary Gustav Husak, in the first major test of his leadership, faces his conservative opposition at a central committee plenum opening today.

Husak, who barely had begun to consolidate his position in the period since his election six weeks ago, is now confronted with conservative moves in the Czech lands which tend to undermine his position. Pro-Soviet conservatives, headed by Czech party bureau chief Strougal, have made considerable gains in recent weeks, but are not presently strong enough to overthrow Husak. The weaknesses of both groups may lead them to avoid a showdown.

The main issue at the plenum probably will be the attempts by both the Husak and Strougal camps to bring more of their supporters into high positions. One sign that such a maneuver may be in the wind was the early return this week from Moscow of Party Secretary Vasil Bilak, a Strougal conservative. Bilak had been leading the Czechoslovak delegation to the preparatory meeting, still in session, for the international Communist conference.

Husak had hoped to influence waverers at home with a show of confidence in him from Eastern European leaders who have in the past been most critical. He made separate trips, unaccompanied, to Hungary, Poland, and East Germany. The over-all effect of this tactic, however, may be minimal because of Moscow's apparent unwillingness to give Husak public support.

The Husak leadership has also tried to win greater popular acceptance by declaring an amnesty for all Czechoslovaks living abroad since the invasion who might wish to return home. The announcement, affecting tens of thousands of families, may have some sentimental impact. It can also be seen, however, as an "ultimatum," since it states that they must return by 15 September or remain abroad indefinitely. The announcement may be further offset by popular suspicions over the resurgence of the conservatives. [redacted]

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Yugoslavia: The current economic boom has created certain problems that may necessitate restrictive measures.

Belgrade predicts an industrial growth rate of 15 percent this year, although the government recently stated that a rate exceeding 10 or 11 percent would create unacceptable inflationary pressures. Industrial inventories, which rose to excessive levels during the recession of 1967, are being worked off rapidly. With a continued boom in demand, bottlenecks in supply will eventually develop.

The foreign trade balance with hard currency countries is still strained. Net earnings from tourism and other services are rising, but Yugoslavia still depends heavily on foreign credits to cover its payments deficit. The pressure to increase imports is exacerbated by continued heavy capital investments requiring Western equipment.

Government, banking, and business officials have not become greatly alarmed, however, because of several factors in the present situation. Rising personal incomes are being partially absorbed in increased savings, and most retail prices have been held in check. Substantial plant capacity is available and stocks remain high in rapidly growing sectors such as chemicals and electrical products. Finally, there is a large pool of unemployed labor.

Officials are nevertheless keeping a close watch on domestic economic trends and foreign market conditions. If the boom continues as the government expects, Belgrade is almost certain to introduce deflationary measures, primarily short-term credit controls.

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Peru: Foreign Minister Mercado told the US ambassador on 27 May that he was deeply concerned over deteriorating relations with the US and that he saw no possibility of improvement.

In reply to a suggestion from the ambassador, Mercado said that neither Peru nor Ecuador could participate in a conference on the problems of fishing in the coastal waters as long as the US was imposing sanctions on them under the Foreign Military Sales Act.

The foreign minister did express interest, however, in a proposal that a small military mission be attached to the embassy when the present US military missions are withdrawn in compliance with Peru's request. He said that he would present this idea and argue in its favor at the next cabinet meeting.

Turning to the International Petroleum Company issue, Mercado said that he sees the problem becoming even more difficult and is especially concerned over press reports that the US aid mission in Peru is being substantially reduced. In this regard, an English-language news magazine states that the government's reply to the IPC's appeal to the minister of mines and energy is now completed and awaiting the minister's signature. If this report is true, the government has accelerated its timetable for deciding on IPC's appeal, which according to Peruvian law can be delayed until 6 August. [redacted]

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Dominican Republic: Support for the re-election of President Balaguer in 1970 is mounting.

Balaguer's political supporters are apparently becoming convinced that he intends to seek re-election, either as a candidate of his governing Reformist Party or as an independent. Despite a determined campaign by Vice President Lora to win the Reformist Party's nomination, the government majority in congress last week passed a resolution asking Balaguer to accept renomination. The chief of the armed forces, reflecting what is assumed to be general military sentiment, publicly termed the President's re-election a "national necessity." Movements supporting a second term are springing up around the country.

Whether Balaguer is personally stage-managing the movement or whether it stems from associates anxious to curry political favor, the campaign is sure to fuel charges of "neo-Trujilloism." The opposition's principal campaign tactic promises to be to link Balaguer, who served as Trujillo's puppet president for a period, with the odious, heavy-handed practices of Trujillo.

This early pro-Balaguer movement is probably undercutting his two strongest potential rivals, Vice President Lora and former ambassador to the US Garcia-Godoy, who has tentatively decided to run under a "Movement of National Conciliation" banner.

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Greece: Although the government appears more firmly entrenched than ever, there are growing signs of opposition within the military.

Some officers are dissatisfied with Premier Papadopoulos for not appointing more military men to government posts, while others are uneasy with the "vast power" of rising junior officers associated with the junta. This uneasiness has been sharpened by what the disgruntled claim to be flagrant graft and corruption in the government.

The government has controlled such discontent by retiring its opponents, but opposition efforts by some officers are now being reported. [redacted]

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Although there has been little recent evidence of widespread dissension within the services, both the navy and air force were involved with the King's abortive coup in December 1967, and many officers who survived the subsequent purges remain essentially proroyalist. [redacted]

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[redacted] the government's effort to acquire a new, modern fleet for the navy has developed support among naval officers and that the prevailing sentiment among air force officers has been to support the regime for lack of a better alternative.

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Junior officers in the army have been reported to be pleased with their prospects for promotion following certain army reforms. Senior officers appear to be subject to more mixed emotions over status, tenure, and promotions, but as professionals they are reported to believe that they must remain in the army and close ranks.

About 15 retired officers were arrested yesterday, and rumors circulated in Athens that an attempted coup was crushed before it got under way.

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[redacted] there is no doubt that the government is aware of at least some military disaffection and is ready to take strong measures against any threat. [redacted]

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NATO: Renewed efforts by Norway and Denmark to abolish the temporary travel document (TTD) system under which East Germans are permitted to visit NATO countries are causing some frictions in the Alliance.

The latest debate on the TTDs arose over the impending visit of three East German parliamentarians to Oslo and Copenhagen. The Scandinavians insist that the East Germans have been invited only as "private individuals" by members of the Norwegian and Danish parliaments, and not as official guests of the parliaments. Domestic considerations also play a role in this stand; the non-socialist governments in Oslo and Copenhagen are anxious to avoid offending the left-of-center parties that issued the invitations.

The three Western allies responsible for granting the TTDs are considering liberalizing their policies on TTDs. Bonn, however, is fundamentally opposed to such exchanges, because they lend an air of legitimacy to the East German Volkskammer. Furthermore, the recent recognition of East Germany by Iraq, Cambodia, and Sudan has irritated the West Germans and provoked a stronger line against any moves by their NATO allies that they believe might increase Pankow's prestige.

Nevertheless, Bonn is going along with the Allied decision authorizing this visit. The West Germans are not optimistic that Norway and Denmark will reverse their position, but they intend to make bilateral approaches to both countries urging that visits by Volkskammer delegates should not be permitted by the NATO allies. [redacted]

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Portugal: Prime Minister Caetano has consolidated his political position since he took over last September from ailing Antonio Salazar.

Caetano has recently given some indications of his government's goals. In a newspaper interview in mid-May he had suggested that over the longer term he wants to liberalize both domestic and African policy. Last week, however, in a series of speeches in northern Portugal, he stressed that reforms must be made cautiously.

The conservative upper classes fear that Caetano will become committed to reforms that would involve cutting into their privileges. At the same time, despite his cautious approach he has awakened the expectations of the poor for an early improvement in their standard of living. The Prime Minister now appears, nevertheless, to have the solid support of the bulk of the population and of the political center.

Caetano is trying to create a countrywide consensus in support of the candidates of National Union, the government party, before the national assembly elections next November. In this effort, he has made a fundamental change from the Salazar regime by talking directly to the people about national problems. Although opposition candidates may appear on the ballot in November, there is no indication that Caetano plans to let opposition parties operate freely.

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Brazil: The murder of a priest on the campus of the Recife federal university could set off major troubles for Brazilian authorities. Recife Archbishop Dom Helder Camara has accused right-wing extremists of lynching the priest--who was a sociology professor at the school--and has charged that many others are similarly marked for elimination. Security authorities have allegedly given tacit support to some right-wing extremists in the past, and the police may well be reluctant to seek out the murderers.

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Costa Rica: The government's surrender to the demands of illegally striking dockworkers at Limon is under fire by conservative business groups and the press. In a rare show of cooperation, the executive and the assembly rushed through legislation to satisfy workers who went on a rampage when the government brought in strike-breakers last week. The victory, and the prestige won by Communist labor advisers who mapped the workers' strategy, will probably further agitate militant anti-Communist

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West Germany: Last month's increase in the export surplus and a record volume of foreign orders suggest that inflationary pressures arising from the foreign sector will intensify in coming months. The foreign trade surplus reached \$328 million--up from \$275 million in April 1968--as both exports and imports rose by 25 percent. Although the export surplus for the first third of 1969 declined by \$340 million compared with the corresponding period a year ago, this was largely attributable to heavy advance shipments made at the end of 1968 rather than to last November's foreign trade tax measures. [redacted]

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